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C O N F I D E N T I A L CARACAS 000104

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DEPT PASS TO TDA-AANGULA & JHERRMAN
TAGS: EINV, ETRD, EPET, EFIN, ECON, USTR, VE, KIPR
SUBJECT: MARITZA IZAGUIRRE TO CONTINUE AS FINANCE MINISTER UNDER

UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: OSCAR J OLSON
CLASSIFICATION: UNCLASSIFIED
DATE/CASE ID: 15 JUL 2009 200503654

CHAVEZ

REF: CARACAS 03744

SUMMARY
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1. (U) PRESIDENT-ELECT HUGO CHAVEZ NAMED INCUMBENT MINISTER OF FINANCE MARITZA IZAGUIRRE TO THAT SAME POST IN HIS ADMINISTRATION ON JANUARY 9. THE FINANCIAL SECTOR HAS REACTED POSITIVELY TO THIS DECISION, GIVEN IZAGUIRRE'S LONGSTANDING CONNECTIONS WITH INTERNATIONAL FINANCIAL INSTITUTIONS. IZAGUIRRE'S APPOINTMENT IS THE LATEST IN A SERIES OF ORTHODOX ECONOMIC DECISIONS BY THE INCOMING PRESIDENT. THE LOCAL MARKET REACTION TO THE NEWS THAT IZAGUIRRE WOULD STAY ON WAS OVERWHELMED BY RECENT ECONOMIC DEVELOPMENTS IN BRAZIL. IZAGUIRRE'S APPOINTMENT ALLOWS THE CHAVEZ

GOVERNMENT TO BEGIN DEVELOPING AN ECONOMIC PLAN, WHICH WILL MAKE IT POSSIBLE FOR THE NEW ADMINISTRATION TO BEGIN NEGOTIATING AN IMF PROGRAM. AN IMF PROGRAM WOULD IN TURN OPEN THE DOOR TO ADDITIONAL WORLD BANK AND IDB LENDING AND A HOPED-FOR RESCHEDULING OF VENEZULEA'S PARIS CLUB DEBT.

IZAGUIRRE TO BE CHAVEZ' MINISTER OF FINANCE
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2. (U) PRESIDENT ELECT HUGO CHAVEZ NAMED THE INCUMBENT MINISTER OF FINANCE, MARITZA IZAGUIRRE, TO THE SAME POST IN HIS ADMINISTRATION ON JANUARY 9. THIS IS SEEN AS A CONFIDENCE-BUILDING MEASURE THAT RESPONDS TO VENEZUELA'S DEEPENING FISCAL CRISIS. IZAGUIRRE IS WIDELY RECOGNIZED AS A CANDIDATE WITH GREAT EXPERIENCE IN DEALING WITH THE INTERNATIONAL MONETARY FUND (IMF), THE WORLD BANK (IBRD) AND THE INTER-AMERICAN DEVELOPMENT BANK (IDB). SHE ALSO PARTICIPATED IN THE RENEGOTIATION OF VENEZULEA'S NATIONAL DEBT IN THE 1980S.

OPTIMISM IN THE FINANCIAL SECTOR
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3. (U) THE FINANCIAL SECTOR HAS REACTED POSITIVELY TO IZAGUIRRE'S APPOINTMENT. "THIS IS A GOOD CHOICE," SAID BRUCE CARLSON, WORLD BANK REPRESENTATIVE IN VENEZUELA. VICE PRESIDENT OF J.P. MORGAN JUAN FOGELES CHARACTERIZED THE MOVE AS, "ABSOLUTELY POSITIVE" BECAUSE IZAGUIRRE "HAS GREAT CREDIBILITY WITH THE IMF, THE WORLD BANK AND THE IDB AND [HER APPOINTMENT] DEMONSTRATES THE COMMITMENT

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4. (C) A SENIOR ADVISOR AT THE SUPERINTENDENCY OF BANKS (SUDEBAN) HAD ESPECIALLY HIGH PRAISE FOR IZAGUIRRE. HE SAID SHE REPRESENTED BOTH POLICY CONTINUITY AND TECHNICAL COMPETENCE WITH THE ADDED ADVANTAGE OF BEING APOLITICAL. SHE KNOWS BOTH THE NATIONAL ACCOUNTS AND THE INTERNATIONAL FINANCIAL INSTITUTIONS. SHE WANTS TO REDUCE THE BUDGET DEFICIT AND SHE PARTICIPATED IN THE RESTRUCTURING OF VENEZUELA'S DEBT. THIS BASE OF EXPERIENCE WILL ALLOW HER TO DEAL WITH THE CHAVEZ GOVERNMENT'S MOST SERIOUS ECONOMIC PROBLEMS--THE BUDGET DEFICIT AND THE DEBT BURDEN. FURTHERMORE, SHE ALREADY KNOWS THAT SHE WILL NOT HAVE MUCH FLEXIBILITY, SO SHE WILL NOT TRY ANYTHING NEW. IN SHORT, SHE IS THE RIGHT PERSON FOR THE MOMENT.

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LOCAL MARKET REACTION OVERWHELMED BY EXTERNAL EVENTS
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7. (U) THE LOCAL MARKET REACTION TO IZAGUIRRE'S APPOINTMENT WAS OVERWHELMED BY RECENT ECONOMIC DEVELOPMENTS IN BRAZIL. THE CARACAS STOCK EXCHANGE (CSE) WAS CLOSED ON MONDAY, JANUARY 11, IN OBSERVANCE OF THREE KINGS DAY. ON TUESDAY, JANUARY 12, THE FIRST DAY OF LOCAL MARKET ACTIVITY FOLLOWING IZAGUIRRE'S APPOINTMENT, THE CSE DECLINED BY 6.6 PERCENT FROM 4,665 TO 4,349 DUE THE DECISION OF THE BRAZILIAN STATE OF MINAS GERAIS TO DECLARE A 90-DAY MORATORIUM ON DEBT PAYMENTS TO THE CENTRAL GOVERNMENT AND RELATED DOUBTS ABOUT

THE STATUS OF BRAZIL'S FISCAL REFORMS. THE ADJUSTMENT AND WIDENING OF BRAZIL'S EXCHANGE RATE BAND SYSTEM AND THE SURPRISE RESIGNATION OF BRAZILIAN CENTRAL BANK PRESIDENT GUSTAVO FRANCO ON WEDNESDAY, JANUARY 13, IS EXPECTED TO PLACE FURTHER DOWNWARD PRESSURE ON THE CSE IN THE COMING DAYS.

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COMMENT:
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10. (C) IZAGUIRRE'S APPOINTMENT ALLOWS THE CHAVEZ GOVERNMENT TO BEGIN DEVELOPING AN ECONOMIC PLAN, WHICH WILL MAKE IT POSSIBLE FOR
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THE NEW ADMINISTRATION TO BEGIN NEGOTIATING AN IMF PROGRAM. AN IMF PROGRAM WOULD IN TURN OPEN THE DOOR TO ADDITIONAL WORLD BANK AND IDB LENDING AND A HOPED-FOR RESCHEDULING OF VENEZULEA'S PARIS CLUB DEBT. HOWEVER, IT REMAINS TO BE SEEN IF THE CHAVEZ GOVERNMENT WILL ACCEPT THE POLITICALLY PAINFUL ECONOMIC CONDITIONS OF AN IMF PROGRAM (SUCH AS BUDGET CUTS, A POSSIBLE RAISING OF GASOLINE PRICES, AND THE PRIVATIZATION OF THE ALUMINUM SECTOR). IT IS ALSO NOT CERTAIN THAT THE PARIS CLUB WILL RESCHEDULE THE DEBT OF A MAJOR OIL EXPORTER LIKE VENEZULEA.

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3134/USFCS/OIO/WH-RLENAHAN & ELENNY
DEPT PASS TO OCC-AMCMAHON
DEPT PASS TO USTR-SDEMBSKI, KLEZNY, LKUBISKE & BHARMAN
DEPT PASS TO EXIMBANK-KTINSLEY, MHINCHMAN, FCARRIGER & STHOMPSON
DEPT PASS TO OPIC-ATHURBER, MBOND, RGREENBERG
DEPT PASS TO TDA-AANGULA & JHERRMAN
TAGS: EINV, ETRD, EPET, EFIN, ECON, USTR, VE, KIPR
SUBJECT: MARITZA IZAGUIRRE TO CONTINUE AS FINANCE MINISTER UNDER CHAVEZ

REF: CARACAS 03744

COMMENT:
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10. (C) IZAGUIRRE'S APPOINTMENT ALLOWS THE CHAVEZ GOVERNMENT TO BEGIN DEVELOPING AN ECONOMIC PLAN, WHICH WILL MAKE IT POSSIBLE FOR THE NEW ADMINISTRATION TO BEGIN NEGOTIATING AN IMF PROGRAM. AN IMF PROGRAM WOULD IN TURN OPEN THE DOOR TO ADDITIONAL WORLD BANK AND IDB LENDING AND A HOPED-FOR RESCHEDULING OF VENEZULEA'S PARIS CLUB DEBT. HOWEVER, IT REMAINS TO BE SEEN IF THE CHAVEZ GOVERNMENT WILL ACCEPT THE POLITICALLY PAINFUL ECONOMIC CONDITIONS OF AN IMF PROGRAM (SUCH AS BUDGET CUTS, A POSSIBLE RAISING OF GASOLINE PRICES, AND THE PRIVATIZATION OF THE ALUMINUM SECTOR). IT IS ALSO NOT CERTAIN THAT THE PARIS CLUB WILL RESCHEDULE THE DEBT OF A MAJOR
CONFIDENTIAL

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OIL EXPORTER LIKE VENEZULEA.

MAISTO